

Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Tarragon Corporation and subsidiaries, as of December 31, 2005 and 2004, and the consolidated results of their operations and their consolidated cash flows for each of the three years in the period ended December 31, 2005, in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 1 to the consolidated financial statements, the Company adopted Financial Accounting Standards Board Interpretation 46-R "Consolidation of Variable Interest Entities" in 2004.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of Tarragon Corporation and subsidiaries' internal control over financial reporting as of December 31, 2005, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated March 15, 2006, expressed an unqualified opinion on management's assessment of, and an unqualified opinion on the effective operation of, internal control over financial reporting.

58. On May 10, 2006, the Company issued a press release entitled "Tarragon Corporation Announces First Quarter 2006 Financial Results." Therein, the Company, in relevant part, stated:

- Net Income of \$18.8 Million or \$0.59 Per Diluted Share
- Consolidated Revenue up 23 Percent
- Company Maintains 2006 Guidance of \$3.70 to \$4.20 Income From Continuing Operations Per Diluted Share
- 209,024 Shares Repurchased

Tarragon Corporation (Nasdaq: TARR), a leading urban homebuilder specializing in the development and marketing of high-density residential communities, today announced its financial results for the quarter ended March 31, 2006.

Financial Results

Consolidated revenue for the first quarter of 2006 was \$98.9 million, up 23 percent from \$80.3 million in the same period of 2005. The increase was due principally to consolidated homebuilding sales, which totaled \$89.2 million, up 40 percent from \$63.6 million in the first quarter of 2005. The increase in consolidated revenue was partially offset by a \$7.0 million decrease in rental and other revenue, which resulted from the implementation of the Company's capital redeployment program announced in March 2005.

Homebuilding sales, including revenue from unconsolidated properties, were \$111.9 million in the first quarter of 2006, down from \$120.0 million in the same period of 2005. In the prior-year quarter, 12 percent of homebuilding sales were derived from Northeast projects compared to 1.9 percent in the current quarter. Over the next two quarters, sales will commence at several projects in the Northeast representing more than \$275 million in homebuilding revenue.

Income from continuing operations of \$11.5 million was equal to that of the first quarter 2005.

Net income for the first quarter of 2006 was \$18.8 million, or \$0.59 per diluted share, compared to \$21.6 million, or \$0.70 per diluted share, in the first quarter of 2005, which included \$10.3 million of after tax gains on sale of real estate compared to \$7.3 million in the current quarter. Based on lower sales velocity in several markets in Florida, the Company increased its estimate of marketing and carrying costs on several of its developments. When estimates of project costs are revised, gross profit is adjusted

in the period of change so that cumulative project earnings reflect the revised profit estimate. These adjustments decreased after tax net income in the first quarter of 2006 \$5.1 million, or \$0.16 per diluted share. Accordingly, overall margins are expected to expand in future quarters, provided current sales rates continue as expected.

Tarragon Chairman and CEO William S. Friedman commented, "We are maintaining our guidance for the year and we expect that our results will be more robust during the second half as additional communities in the Northeast hit the market and contribute to earnings. While less than 2 percent of our homebuilding revenue was derived from projects in the Northeast in the first quarter, we expect the Northeast market to contribute 27 percent of total 2006 homebuilding revenue and over 35 percent of gross profits. We expect this trend to continue into 2007 as our Northeast activities begin to mature."

Share Repurchase Program

During the first quarter of 2006, the Company repurchased 209,024 shares at an average price of \$19.69 per share.

2006 Guidance

The company reaffirmed its 2006 guidance of \$3.70 to \$4.20 income from continuing operations per diluted share, based on current market and sales trends, as well as anticipated income from the completion of its capital redeployment program during 2006.

59. Also on May 10, 2006, Tarragon filed its Quarterly Report with the SEC on Form 10-Q. The Company's 10-Q was signed by Defendants Friedman and Pickens, and reaffirmed the Company's financial results announced on the same day. The Company's 10-Q also contained Sarbanes-Oxley required certifications, substantially similar to the certifications contained in ¶43, *supra*.

60. The statements contained in ¶¶ 40 - 59 were materially false and misleading when made because defendants failed to disclose or indicate the following: (1) that the Company had failed to consolidate a limited partnership into its consolidated

financial statements; (2) that the Company had failed to properly report its consolidated statement of cash flows by misclassifying items among its operating, investing and financing activities; (3) that the Company's financial statements were not prepared in accordance with GAAP; and (4) that, as a result of the above, the Company's financial statements were materially false and misleading at all relevant times.

61. On August 9, 2006, the Company shocked investors when it issued a press release entitled "Tarragon Corporation to Postpone Second Quarter Earnings Announcement and Conference Call; Company May Be Required to Consolidate Ansonia Partnership." Therein, the Company, in relevant part, revealed:

Tarragon Corporation (Nasdaq: TARR), a leading urban homebuilder specializing in the development and marketing of high-density residential communities, today announced that it is reviewing its earlier determination that it was required to treat Ansonia Apartments, LP (Ansonia) as an unconsolidated partnership for financial reporting purposes. The review relates only to the interpretation of existing accounting literature and does not involve new facts or circumstances.

Ansonia owns approximately 6,300 rental apartments primarily in Connecticut and Florida. Tarragon included summarized financial data from Ansonia's financial statements in notes to financial statements in the Company's 2005 Annual Report on Form 10-K.

The Company is currently reviewing its accounting treatment of its investment in Ansonia with its independent accountants if the Company concludes that it is required to consolidate Ansonia, the Company will be required to restate certain prior period financial statements. There would be no impact on income or revenue of the homebuilding division.

Tarragon has postponed the issuance of its second quarter 2006 financial results and conference call, both originally scheduled for today, Wednesday, August 9, pending this review. Tarragon will announce a rescheduled date and time for its second quarter earnings release as soon as the review is concluded.

62. Upon this partial disclosure, the Company's shares declined \$1.67 per share, or 14 percent, to close on August 9, 2006 at \$10.30 per share, on unusually heavy trading volume.

63. On August 9, 2006, the Company issued a press release entitled "Tarragon Corporation to Postpone Second Quarter Earnings Announcement and Conference Call; Company May Be Required to Consolidate Ansonia Partnership." The press release stated in part:

Tarragon ... today announced that it is reviewing its earlier determination that it was required to treat Ansonia Apartments, LP (Ansonia) as an unconsolidated partnership for financial reporting purposes. The review relates only to the interpretation of existing accounting literature and does not involve new facts or circumstances.

Ansonia owns approximately 6,300 rental apartments primarily in Connecticut and Florida. Tarragon included summarized financial data from Ansonia's financial statements in notes to financial statements in the Company's 2005 Annual Report on Form 10-K.

The Company is currently reviewing its accounting treatment of its investment in Ansonia with its independent accountants. If the Company concludes that it is required to consolidate Ansonia, the Company will be required to restate certain prior period financial statements. There would be no impact on income or revenue of the homebuilding division.

64. This announcement was the first in a series of partial disclosures and revelations concerning the truth about Tarragon's business operations, finances, business metrics and future business and financial prospects. Nonetheless, Tarragon's common stock continued to trade at artificially inflated levels as this revelation, along with the ones made during the remainder of the Relevant Period, was accompanied by denials and continued misrepresentations by defendants. Upon this partial disclosure, Tarragon's

closed down sharply to trade at \$10.30 per share on August 9, 2006 - a one-day decline of \$1.67 per share or 14%.

65. On August 23, 2006, the Company filed with the SEC a Form 8-K, signed by defendant Pickens, elaborating on the August 9th press release disclosing that it failed to properly consolidate Ansonia Apartments, LP ("Ansonia") in its reported financial results. The Form 8-K in Item 4.02 stated that:

On August 21, 2006, the Audit Committee of the Board of Directors of the Company (the "Audit Committee"), in consultation with members of the Company's management and its independent accountants, Grant Thornton, LLP ("Grant Thornton"), determined that the Company will make a change to the historical accounting treatment of the Company's investment in Ansonia Apartments, LP ("Ansonia"). This change relates only to the interpretation of existing accounting literature and does not involve new facts or circumstances.

Ansonia is a joint venture in which the Company owns a majority equity interest. Historically, the Company has applied the equity method of accounting for its investment in Ansonia. However, as a result of a review of the accounting for the investment in Ansonia by management and the Company's independent accountants, the Audit Committee has decided that the Company will consolidate Ansonia's operations with the Company's operations in accordance with FASB Interpretation Number 46 (revised December 2003), Consolidation of Variable Interest Entities. Accordingly, the Company will restate its financial statements and other financial information for the years and for each of the quarters in the years 2005 and 2004 and for the first quarter of 2006.

The effect of the change will be to increase the Company's assets by approximately \$300 million and increase the Company's liabilities by approximately \$400 million of primarily non-recourse debt of Ansonia. The change will also decrease the cumulative reported earnings of the Company and its investment division by about \$75 million through March 31, 2006. However, there will be no impact on the Company's cash flow or the balance sheet or income statement of its homebuilding division, either as a result of the restatements or the change in accounting treatment of Ansonia.

In light of the restatement, the Company's stockholders should no longer rely on the Company's previously filed financial statements for the years and for each of the quarters in the years 2005 and 2004 and the first quarter of 2006. The Company intends to (1) file its Form 10-Q for the period ended June 30, 2006 on Thursday, August 24, 2006 and (2) file, as promptly as practicable, amendments to its other periodic reports that have previously been filed with the Securities and Exchange Commission for the periods beginning January 1, 2004 to reflect the restatements described in this Item 4.02.

The Audit Committee and management of the Company have discussed the matters disclosed in this item with Grant Thornton.

66. On August 24, 2006, the Company issued a press release entitled "Tarragon Corporation Announces Second Quarter 2006 Financial Results; Second Quarter Net Income of \$10.7 Million, or \$0.34 Per Diluted Share, Up 22 Percent Over Second Quarter 2005 Net Income of \$8.8 Million, or \$0.28 Per Diluted Share." Therein, the Company, in relevant part, stated:

Tarragon Corporation (Nasdaq: TARR), a leading urban homebuilder specializing in the development and marketing of high-density residential communities, today announced its financial results for the second quarter ended June 30, 2006.

Second Quarter Financial Results

Consolidated revenue for the second quarter of 2006 was \$146.7 million, up 61 percent from \$91.4 million in the same period of 2005. The increase was due principally to consolidated homebuilding sales, which totaled \$122.3 million, up 77 percent from \$69.1 million in the second quarter of 2005.

Homebuilding sales, including revenue from unconsolidated properties, were \$143.1 million in the second quarter of 2006, up from \$133.3 million in the same period of 2005.

Income from continuing operations was \$8.4 million in the second quarter of 2006, compared to \$8.0 million in the same period of 2005.

Net income for the second quarter of 2006 was \$10.7 million, or \$0.34 per diluted share, up 22 percent from \$8.8 million, or \$0.28 per diluted share, in the second quarter of 2005. Included in the second quarter of 2006 is a \$2.7 million expense associated with the write off of costs incurred for projects that have been cancelled.

Six-Month Financial Results

Consolidated revenue for the first six months of 2006 was \$260.8 million, up 47 percent from \$176.9 million in the same period of 2005. Homebuilding sales, including revenue from unconsolidated properties, were \$255.0 million in the first six months of 2006 compared to \$253.4 million in the same period of 2005.

Income from continuing operations during the first six months of 2006 was \$19.0 million compared to \$19.4 million in the same period of 2005. Net income for the first six months of 2006 was down 6 percent to \$28.6 million, or \$0.90 per diluted share, compared to \$30.4 million, or \$0.98 per diluted share, in the comparable period of 2005.

Tarragon Chairman and CEO William S. Friedman commented, "Strong, higher-margin sales during the second quarter in our New Jersey communities, such as One Hudson Park in Edgewater and 1100 Adams in Hoboken, have helped to offset the weakness in many of our Florida condominium conversions, to produce revenue and net income that were substantially higher than the 2005 quarter. However, we expect the soft demand in the southeast markets, with lower margins resulting from increased carrying and marketing costs, to continue to apply pressure on our earnings. As a result, we are lowering our 2006 guidance for income from continuing operations per diluted share to \$2.10 to \$2.40. We expect net income, including discontinued operations, of \$2.60 to \$2.90 per diluted share.

Mr. Friedman continued, "Our outlook for 2007 remains solid because, in addition to completing the sellout of several profitable conversions from our rental portfolio, we expect significant profit from higher-margin properties now under construction, particularly in New Jersey. We believe our focus on unique waterfront developments meeting the demand from the growing number of non-traditional households and increased development of rental housing will help to insulate our operations

from the conditions now impacting the broader market for residential real estate. Assuming a continuation of current market conditions, we expect net income in 2007 to at least equal that of 2006. Of particular importance, most of our condominium conversion sales are at communities where we have been selling for some time and have either paid off or substantially reduced the original acquisition financing. At June 30, the ratio of fully funded debt to total estimated sellout of our active conversions was 43 percent. Accordingly, each dollar of sales produces substantial free cash flow, giving us the financial flexibility we need to run our business, pay down debt and take advantage of opportunities.”

Share Repurchase Program

During the second quarter of 2006 the Company repurchased 708,804 shares at an average price of \$14.31 per share.

2006 Guidance

The Company anticipates \$2.10 to \$2.40 of income from continuing operations per diluted share in 2006, based on current market and sales trends and the impact of the Ansonia consolidation.

67. Also on August 24, 2006, Tarragon filed its Quarterly Report with the SEC on Form 10-Q. The Company’s 10-Q was signed by Defendants Friedman and Pickens, and reaffirmed the Company’s financial results announced on the same day. The Company’s 10-Q also contained Sarbanes-Oxley required certifications, substantially similar to the certifications contained in ¶43, *supra*.

68. The August 24th Form 10-Q also contained the following disclosure concerning Tarragon's recognition of revenue from One Hudson Park, a condominium project the Company was developing in Edgewater, New Jersey:

We use the percentage-of-completion method to recognize revenue on our mid-rise and high-rise condominium developments where construction typically takes eighteen months or longer to complete. One of the criteria for revenue recognition under the

percentage-of-completion method is that construction must be beyond a preliminary stage. We believe that most developers use a measure of 25% to 50% of construction costs to conclude construction is beyond a preliminary stage. Prior to 2006, when 50% of estimated construction costs had been incurred, we concluded that construction was beyond a preliminary stage. In 2006, we began using 40% of construction costs for this measure. This change in accounting estimate resulted in commencing revenue recognition for One Hudson Park, for which 46% of estimated construction costs had been incurred as of June 30, 2006, and after the other requirements of revenue recognition under the percentage-of-completion method had been met. For the quarter ended June 30, 2006, we recognized homebuilding sales revenue of \$22.2 million and gross profit of \$6.5 million for this project.

69. On November 9, 2006, the Company issued a press release entitled “Tarragon Corporation Announces Third Quarter 2006 Financial Results; Net Income of \$6.0 Million or \$0.19 Per Diluted Share for the Quarter Ended September 30, 2006 and \$35.1 Million or \$1.11 Per Diluted Share for the Nine Months Ended September 30, 2006; Company Plans to Spin Off Homebuilding Division to Shareholders in 2007.” Therein, the Company, in relevant part stated:

Tarragon Corporation (Nasdaq: TARR), a leading urban homebuilder specializing in the development and marketing of high-density residential communities, today announced its financial results for the third quarter and nine months ended September 30, 2006.

Third Quarter Financial Results

Consolidated revenue for the third quarter of 2006 was \$119.2 million, compared to \$265.3 million in the same period of 2005. Lower consolidated homebuilding revenue from condominium conversion closings in the Company’s Florida markets from the year ago period accounts for the decrease.

Homebuilding sales, including revenue from unconsolidated properties, were \$104.7 million in the third quarter of 2006, compared to \$308.5 million in the third quarter of 2005.

Net income for the third quarter of 2006 was \$6.0 million, or \$0.19 per diluted share, compared to net income of \$50.3 million, or \$1.70 per diluted share, in the third quarter of 2005. Income from continuing operations was \$2.8 million in the third quarter of 2006, compared to \$28.2 million in the same period of 2005. Third quarter net income in 2005 included \$22.4 million in after tax gains on sale of investment division properties, compared to \$3.3 million in the third quarter of 2006.

Certain comparative results for 2005 have been restated to reflect the consolidation of Ansonia Apartments LP, as announced on August 22, 2006. Ansonia was previously treated as an unconsolidated partnership for financial reporting purposes.

Nine-Month Financial Results

Consolidated revenue for the first nine months of 2006 was \$379.0 million, compared to \$441.2 million in the same period of 2005. Homebuilding sales, including revenue from unconsolidated Properties were \$359.7 million in the first nine months of 2006 compared to \$561.9 million in the same period of 2005.

Income from continuing operations during the first nine months of 2006 was \$22.5 million or \$0.71 per diluted share compared to \$47.9 million or \$1.67 per diluted share in the same period of 2005. Net income for the first nine months of 2006 was \$35.1 million, or \$1.11 per diluted share, compared to \$80.7 million, or \$2.69 per diluted share, during the same period of 2005. During the first nine months of 2006 the Company wrote off \$5.0 million in costs related to deals no longer being pursued compared to \$0.7 million in the first nine months of 2005.

Tarragon Chairman and CEO William S. Friedman commented, "Our third quarter results reflect the continued slow down in condominium conversion sales along with declining margins, particularly in Florida. However, as our condominium conversions slowly sell out, we are beginning to reduce debt and redeploy capital to higher-margin, new developments in New Jersey, Connecticut, Texas and Tennessee. In fact, during the first ten months of the year, we reduced debt associated with our condominium conversions by \$164 million."

Mr. Friedman continued, "As a result of the continuing sales slowdown and lower margins, we are reducing our 2006 guidance for net income to \$1.15 per diluted share and for income from continuing operations to \$0.75 per diluted share. Going

forward, our growing pipeline of high-density, in-fill developments, primarily in New Jersey and Connecticut will help offset market weakness in Florida and be a key driver of revenue and net income growth in 2008 and beyond.”

Share Repurchase Program

During the third quarter of 2006 the Company repurchased 116,859 shares at an average price of \$10.69 per share.

70. Also on November 9, 2006, Tarragon filed its Quarterly Report with the SEC on Form 10-Q. The Company’s 10-Q was signed by Defendants Friedman and Pickens, and reaffirmed the Company’s financial results announced on the same day. The Company’s 10-Q also contained Sarbanes-Oxley required certifications, substantially similar to the certifications contained in ¶43, supra.

71. On March 19, 2007, the Company issued a press release entitled “Tarragon Corporation Announces Fourth Quarter and Year End 2006 Financial Results; Debt on completed condominiums reduced by nearly 50 percent in 2006.” Therein, the Company, in relevant part, stated:

Tarragon Corporation (Nasdaq: TARR), a leading developer of multifamily housing for rent and for sale, today announced its financial results for the fourth quarter and year ended December 31, 2006.

Year End Financial Results

Based on unaudited results, net income for 2006 was \$9.8 million, or \$0.31 per diluted share, compared to \$88.5 million, or \$2.93 per diluted share, in 2005. 2006 net income was adversely impacted by unusual items including impairment charges, write-offs and gross margin adjustments of \$34.9 million after tax, or \$1.23 per share. Of this \$34.9 million, \$26.3 million is reflected in cost of sales, resulting from market driven margin reductions and impairments. The margin adjustments were made to reflect price reductions, slower absorption and increased marketing costs on unsold units. \$6.4 million, after tax, is included in general and

administrative expense, resulting from the write-off of pursuit costs on development projects that did not go forward. Finally, \$2.2 million of impairment charges, after tax, represent the write-down of land inventory and properties held for sale to current estimated market value. This compares to \$3.2 million of impairment charges and other write-downs, after tax, recorded in 2005. Loss from continuing operations for 2006 was \$2.3 million or \$(0.12) per diluted share compared to income from continuing operations of \$45.8 million or \$1.60 per diluted share in 2005.

The Company expects to report consolidated 2006 revenue of \$544.9 million, an 8 percent decrease from \$595.1 million in 2005, based on unaudited results. Homebuilding sales, including revenue from unconsolidated entities, decreased 31 percent to \$508.2 million in 2006 from \$735.5 million in 2005. Fewer condominium conversion closings in the Southeast market, which declined 34 percent from 2005, were the principal reason for the decline in revenue.

Tarragon Chairman and CEO William S. Friedman commented, "We have finished a disappointing year for the homebuilding industry and for Tarragon. We have used this period of slow sales to develop new marketing strategies, to reduce debt and to pursue developments with multiple exit strategies that work either as rentals or condominiums. Tarragon's long-term plan is to focus on smart growth and redevelopment projects in areas of high demand."

Fourth Quarter Financial Results

The Company expects to report a net loss for the fourth quarter of 2006 of \$25.1 million, or \$(0.89) per diluted share, compared to net income of \$7.8 million, or \$0.26 per diluted share, in the fourth quarter of 2005. Included in the fourth quarter of 2006 net loss were unusual items including impairment charges, write-downs and gross margin adjustments of \$23.6 million after tax, or \$0.83 per share. This \$23.6 million includes \$18.6 million from market driven margin reductions and impairments in cost of sales, \$3.3 million from development pursuit costs written off to general and administrative expense and \$1.7 million from impairment charges related to the write-down of land inventory and properties held for sale. No impairment charges or other write-downs were recorded in the fourth quarter of 2005. Loss from continuing operations was \$25.6 million in the fourth quarter of 2006, compared to a loss of \$2.9 million in the same period of 2005.

Based on unaudited results, consolidated revenue for the fourth quarter of 2006 was \$163.8 million, an increase of 7.8 percent over consolidated revenue of \$151.9 million in the same period of 2005. Homebuilding sales, including revenue from unconsolidated properties, declined 14 percent to \$148.5 million in the fourth quarter of 2006, compared to \$173.7 million in the fourth quarter of 2005. Florida sales represented 49 percent of homebuilding sales in the 2006 fourth quarter compared to 81 percent in the 2005 period.

Spin Off of Homebuilding Division

The Company has filed a preliminary proxy statement with the Securities and Exchange Commission related to the proposed pro rata, tax-free spin off of its Homebuilding Division as an independent, publicly traded company. The transaction, which is subject to shareholder approval, is expected to be completed in mid-2007. Tarragon will continue to operate its real estate services business, which provides asset and property management, leasing and renovation services to residential and commercial properties. Following the spin off, Tarragon will change its name to Sage Residential, Inc. Tarragon's homebuilding and development business will be renamed Tarragon Corporation. Tarragon believes that the spin off will, among other things, provide both businesses with direct and differentiated access to financing and the capital markets, allow each company to grow through acquisitions appropriate to its business and provide each company with the opportunity to align management incentives with the performance of its business. If the spin off is consummated, Tarragon stockholders will hold a proportionate interest equal to their current ownership interest in Tarragon in two separate companies: Tarragon Corporation, which will have substantially reduced debt and higher book value as a result of its separation from the real estate services division due to that division's high level of fixed rate, non-recourse debt, and Sage, which will hold the assets of the real estate services division and associated debt. Although Sage will reflect negative book value as a result of historical-based accounting and depreciation, its net asset value, based on our current estimate of the fair market value of the assets of the real estate services division, is expected to approximate \$7 per diluted share. "Sage will be a management-focused real estate services company, led by an award-winning team that has been recognized for its vision and expertise, that will be well positioned

to significantly expand its net operating income and absorb additional business,” said Mr. Friedman.

Mr. Friedman concluded, “Due to the effects that the timing of the spin off will have on our operating results, we will not issue guidance until the spin off is completed. Our goal for 2007 is to validate the confidence our investors have placed in the strength of our long term strategy, aggressively manage our balance sheet, and improve earnings over 2006.”

Share Repurchase Program

During 2006, the Company repurchased 1,034,687 shares at an average price of \$14.99 per share. No shares were repurchased in the 2006 fourth quarter.

72. The statements contained in ¶¶ 61, 63, 65-71 were materially false and misleading when made because defendants failed to disclose or indicate the following: (1) that the Company had failed to consolidate a limited partnership into its consolidated financial statements; (2) that the Company had failed to properly report its consolidated statement of cash flows by misclassifying items among its operating, investing and financing activities; (3) that the Company’s financial statements were not prepared in accordance with GAAP; (4) that, as a result of the above, the Company’s financial statements were materially false and misleading at all relevant times; (5) that the Company was experiencing liquidity issues due to its inability to obtain loan modifications and financing; and (6) that the Company lacked adequate internal and financial controls.

THE TRUTH BEGINS TO EMERGE

73. On April 2, 2007, Tarragon filed a Form 8-K with the SEC, which in relevant part stated:

On March 27, 2007, management and the Audit Committee of Tarragon Corporation (the "Company") concluded, after a review of the Company's consolidated statements of cash flows and applicable accounting standards and related guidance relating to the presentation of cash flows, that the Company's consolidated statements of cash flows should be restated to reclassify certain items among operating, investing and financing activities. In reaching its conclusion, the Company also reviewed the presentation of other companies in its industry.

Such conclusion was discussed with, and approved by, the Audit Committee of the Company's Board of Directors. Also, the restatement has been discussed with the Company's independent registered public accountants.

As a result of the foregoing, the Company intends to include in its Annual Report on Form 10-K for the year ended December 31, 2006 (the "2006 10-K") a restatement of the consolidated statements of cash flows for the years ended December 31, 2005 and 2004 included in that report. The previously filed consolidated statements of cash flows for the years ended December 31, 2005 and 2004 should not be relied upon.

74. Also on April 2, 2007, Tarragon filed its Annual Report with the SEC on Form 10-K. The Company's 10-K was signed by the Individual Defendants, among others, and contained Sarbanes-Oxley required certifications substantially similar to the certifications contained in ¶43, *supra*.

75. The 2006 Form 10-K also contained the following disclosure concerning Tarragon's recognition of revenues from the sale of condominiums in its new developments:

In November 2006, the FASB ratified EITF Issue No. 06-8, "Applicability of a Buyer's Continuing Investment Under FASB Statement No. 66 for Sales of Condominiums" (EITF 06-8). EITF 06-8 provides guidance in assessing the collectability of the sales price, which is required to recognize profit under the percentage-of-completion method pursuant to SFAS No. 66. EITF 06-8 states that an entity should evaluate the adequacy of the buyer's initial and continuing investment in reaching its conclusion that the sales price is collectible. The continuing investment criterion in

paragraph 12 of SFAS No. 66 would be met by requiring the buyer to either (1) make additional payments during the construction term at least equal to the level annual payments that would be required to fund principal and interest payments on a hypothetical mortgage for the remaining purchase price of the property or (2) increase the initial investment by an equivalent aggregate amount. If the test for initial and continuing investment is not met, the deposit method should be applied and profit recognized only once the aggregate deposit meets the required investment test for the duration of the construction period. EITF 06-8 will be effective for the first annual reporting period beginning after March 15, 2007, and early adoption is permitted. Accounting for sales of condominiums not consistent with EITF 06-8 would require a cumulative effect adjustment to retained earnings in the period of adoption. Although we have not yet assessed the impact on our financial position, results of operations and cash flows, *we believe we may be required, in some cases, to collect additional deposits from the buyer in order to recognize revenue under the percentage of completion method.* If, in these cases, we were not able to meet the requirements of EITF 06-8, we would be required to delay revenue recognition until the aggregate investment tests described in SFAS No. 66 and EITF 06-8 have been met. (Emphasis added).

76. In truth and in fact, the need to collect additional deposits or payments from prospective condominium purchasers was not a mere possibility. Instead, the relatively small deposits placed on new condominium units in projects such as One Hudson Park were insufficient to demonstrate a commitment on the part of those prospective purchasers to actually follow through with the proposed purchases and revenue should not have been recognized in connection with such projects under the percentage of completion method.

77. On May 11, 2007, the Company issued a press release entitled "Tarragon Corporation Announces Financial Results for First Quarter of 2007; Spin-off of Homebuilding Business on Track." Therein, the Company, in relevant part, stated:

Tarragon Corporation (NASDAQ: TARR), a leading developer of multifamily housing for rent and for sale, today

announced its financial results for the first quarter ended March 31, 2007. In addition to presenting consolidated financial results in this release, the Company is including separate financial results, including net income, for its Homebuilding and Real Estate Services businesses in anticipation of the planned spin-off of its Homebuilding business.

First Quarter 2007 Consolidated Financial Results

The Company reported consolidated revenue for the first quarter of \$150.4 million, compared to \$114.2 million in first quarter of 2006. The loss from continuing operations was \$4.4 million in the first quarter of 2007, compared to income from continuing operations of \$11.4 million in the same period of 2006.

Net loss for the first quarter of 2007 was \$4.2 million, or (\$0.16) per diluted share. This compares to net income of \$18.5 million, or \$0.58 per diluted share for the first quarter 2006.

The first quarter 2007 results included \$4.4 million in impairment charges and \$5.5 million in depreciation expense. The financial results for the first quarter of 2007 also included \$400 thousand in pre-tax gains on sales of properties, while results for the 2006 period included gains of \$11.7 million, pre-tax.

“Our business model of pursuing hard to develop opportunities in high barrier to entry markets is being validated in this difficult real estate market. Income from our core developments in the Northeast and the sale of new, or recently renovated rental communities is expected to more than offset losses in our legacy condominium conversion properties in Florida,” said Tarragon Chairman and Chief Executive Officer William Friedman. “Meanwhile, the Florida condominium conversions, even at today’s reduced prices and sales rates, are contributing cash to rapidly reduce debt and to enhance our ability to pursue new opportunities, especially for rental and mixed use developments in the Northeast. This approach positions the Company favorably for the planned spin-off of our homebuilding business later this year.”

Total consolidated debt reduction, before new borrowings, during the first quarter of 2007 was \$65 million, including over \$23 million related to completed condominium conversion projects. By year-end 2007, Tarragon presently expects to repay approximately \$125 million of consolidated debt on condominium

conversion communities, \$130 million on newly built, for-sale developments and \$165 million on rental apartment developments.

“We build and renovate rental communities to sell at a profit. In 2007, we expect to sell five rental communities for over \$300 million. Proceeds from these sales will put both our Homebuilding and Real Estate Services businesses in a stronger position to respond to new opportunities,” said Mr. Friedman.

Homebuilding Business Financial Results

The Company's Homebuilding business sales, including revenue from unconsolidated properties, were \$130.5 million for the first quarter of 2007, compared to \$111.9 million in the first quarter of 2006. Homebuilding net loss for the first quarter of 2007 was \$1.1 million as compared to net income of \$10.9 million for the first quarter of 2006. The decrease was primarily driven by margin reductions in Florida condominium conversion projects over the past year and impairment charges of \$4.4 million in the first quarter of 2007 compared to none the same period a year ago. Mr. Friedman commented, “Our goal for 2007 is to reduce debt on our condominium conversion properties and to access our capital now invested in these assets for other opportunities. To keep sales moving, especially in Florida, we are aggressively pricing our homes. These sales will comprise a substantial portion of the results of our homebuilding operations for much of 2007. However, as the year progresses and we dispose of much of our existing condominium conversion inventory, we expect to see a return to more normal margins and have significantly improved our balance sheet, both in terms of liquidity and debt. So as difficult as it may be to our current earnings, it is the right path to long-term stability and profitability for our homebuilding business.”

Real Estate Services Business Financial Results

The Real Estate Services business had rental revenue of \$26.6 million in the first quarter of 2007 compared to \$22.7 million in the same period of 2006. Net operating income for the first quarter of 2007 was \$13.8 million compared to \$10.7 million in the first quarter of 2006. Real Estate Services' first quarter 2007 net loss was \$3.1 million, after pre-tax depreciation expense of \$5.5 million, compared to first quarter 2006 net income of \$7.5 million after pre-tax depreciation expense of \$3.4 million. First quarter 2006 results included pre-tax gains on sale of real estate of \$11.7 million compared to pre-tax gains of \$400 thousand the first

quarter of 2007. There was \$14.7 million of interest expense in the first quarter of 2007 compared to \$5.4 million in the year ago period. This increase was primarily due to the transfer of several properties from the Homebuilding business to the Real Estate Services business at the end of 2006. In addition, \$5.7 million of interest was capitalized in the first quarter 2006 compared to none in the current quarter.

Homebuilding Business Operations

Sales, Orders and Backlog

In the first quarter of 2007, the Company's homebuilding business wrote 283 net new orders totaling \$84.7 million at an average sale price of \$299,000, compared with 461 net new orders totaling \$105.1 million for the same period in 2006 at an average sale price of \$228,000. The Company delivered 353 homes in the first quarter 2007 for \$83 million, at an average price, excluding land development, of \$244,000, compared with 663 homes for \$156.3 million, with an average price of \$241,000, in the first quarter of 2006.

At the end of the first quarter of 2007, the backlog was \$245.7 million representing 647 homes compared with \$376.1 million at the end of the first quarter of 2006 representing 1,592 homes. The average contract price, excluding land development, was \$437 thousand at March 31, 2007 compared to \$289 thousand at March 31, 2006 as a result of an increase in Northeast contracts included in backlog. As of March 31, 2007, 55 percent of the backlog value is derived from contracts written in the Northeast, up from 18 percent a year ago.

Active For Sale Projects

At March 31, 2007, Tarragon's active for-sale communities (including backlog) totaled 3,811 homes in 33 communities, representing approximately \$1.3 billion in projected revenue, compared to 7,948 homes in 44 communities representing about \$2.4 billion in projected revenue at March 31, 2006. The \$1.3 billion of active, for-sale developments as of March 31, 2007 is comprised of 45 percent new mid-and high-rise buildings, 30 percent condominium conversions and 25 percent new low-rise developments. These communities are currently expected to generate gross margins of 19 percent, 8 percent, and 21 percent, respectively. Overall, a 16 percent average gross margin is anticipated on homes in the active communities. Included in our

gross margin are marketing and selling costs and development overhead representing approximately five percent of homebuilding revenue.

Active For Rent Projects

The homebuilding business continues to build rental communities and currently has eight projects, representing 2,561 apartment homes, in various stages of development. Five of these communities comprising 1,631 apartment homes are expected to remain with the homebuilding business following the proposed spin-off and three representing 930 apartments will be owned and operated by the Real Estate Services business, to be renamed Sage Residential Services post spin-off.

Spin-Off of Homebuilding Division

Tarragon has filed a proxy statement with the Securities and Exchange Commission related to the proposed pro rata, tax-free spin-off of its Homebuilding business as an independent, publicly traded company. The transaction, which is subject to shareholder approval, is expected to be completed in the third quarter of 2007. Tarragon will continue to operate the Real Estate Services business, which provides asset and property management, leasing and renovation services to residential and commercial properties. Following the spin-off, Tarragon will change its name to Sage Residential, Inc. Tarragon's Homebuilding business will be renamed Tarragon Corporation after the spin-off. Tarragon believes that the spin-off will, among other things, provide both businesses with direct and differentiated access to financing and the capital markets, allow each company to grow through acquisitions appropriate to its business and provide each company with the opportunity to align management incentives with the performance of its business. If the spin-off is consummated, Tarragon stockholders will hold a proportionate interest equal to their current ownership interest in Tarragon in two separate companies: the Tarragon Corporation Homebuilding business, which will have substantially reduced debt and higher book value as a result of its separation from the Real Estate Services business due to its high level of fixed rate, non-recourse debt, and Sage Residential, which will operate the Real Estate Services business and hold the assets and associated debt. Although Sage Residential will reflect a negative book value as a result of historical-based accounting and depreciation, its net asset value, based on the current estimate of the fair market value of the assets

of the Real Estate Services business, is expected to approximate \$6 per diluted share, assuming 30 million shares outstanding.

Share Repurchase Program

No shares were repurchased in the first quarter of 2007.

78. On September 30, 2006, Tarragon issued 616,667 shares of 10% cumulative preferred stock, liquidation value \$12.00, and 668,096 shares of Tarragon common stock to Rhodie LLC in connection with Rhodie's right to convert its membership units in Tarragon Development Corporation into Tarragon securities.

79. On May 11, 2007, Tarragon filed with the SEC a Form 12b-25, Notification of Late Filing, with respect to its Form 10-Q for the fiscal quarter ended March 30, 2007. The reason given for the delay was that Tarragon and Grant Thornton were still in the process of reviewing the Company's financial statements.

80. Also on May 11, 2007, Tarragon filed its Quarterly Report with the SEC on Form 10-Q. The Company's 10-Q was signed by Defendants Friedman and Pickens, and reaffirmed the Company's financial results announced on the same day; (a) repeated the representation concerning the Company's financial statements having been prepared in accordance with GAAP (*see* ¶44 above); (b) repeated the representation concerning the impact of ITF 06-08 on the Company's reported financial results (*see* ¶75 above). The Company's 10-Q also contained Sarbanes-Oxley required certifications, substantially similar to the certifications contained in ¶43, *supra*.

81. The statements contained in ¶¶73 - 75, 77, 79 - 80 were materially false and misleading when made because defendants failed to disclose or indicate the following: (1) that the Company had failed to consolidate a limited partnership into its consolidated financial statements; (2) that the Company had failed to properly report its

consolidated statement of cash flows by misclassifying items among its operating, investing and financing activities; (3) that the Company had failed to timely take property impairment charges and other write-downs on certain properties; (4) that the Company's financial statements were not prepared in accordance with GAAP; (5) that, as a result of the above, the Company's financial statements were materially false and misleading at all relevant times; (6) that the Company was experiencing liquidity issues due to its inability to obtain loan modifications and financing; (7) that the Company lacked adequate internal and financial controls; and (8) that, as a result of the foregoing, the Company's statements about its financial well-being and future business prospects for 2007 were lacking in a reasonable basis when made.

82. On July 11, 2007, Tarragon filed a Form 8-K with the SEC attaching a copy of a press release dated July 10, 2007. The press release stated, in relevant part, that:

Tarragon ... today announced that it wrote 342 net orders at its condominium conversion properties in the second quarter of 2007 totaling \$57.6 million at an average sale price of \$168,000, compared with 174 net orders totaling \$32.7 million for the first quarter in 2007 at an average sale price of \$188,000. Tarragon delivered 308 condominium conversion homes in the second quarter of 2007 representing \$53.7 million in sales compared to 264 conversion homes representing \$47.8 million in the first quarter of 2007.

Overall, in the second quarter of 2007 Tarragon delivered a total of 442 homes representing over \$115 million in sales, compared to 353 homes representing \$83 million in the first quarter 2007. Tarragon wrote a total of 353 net orders totaling \$64.7 million in the second quarter of 2007 compared with 283 net orders totaling \$84.7 million for the first quarter of 2007.

For the calendar year, Tarragon presently expects to reduce consolidated debt on condominium conversion communities by over \$100 million, and unconsolidated conversion debt by \$22 million, while repaying \$130 million in debt on newly built, for -

sale developments and \$190 million on rental apartment developments.

At the end of the second quarter, the Company's non-cancelable contractual backlog was \$195 million, or 558 homes, compared to \$246 million, or 647 homes, at the end of the first quarter of 2007.

Tarragon Chairman and Chief Executive Officer William Friedman commented, "We are very pleased that, despite the continuing avalanche of negative publicity about the real estate market in Florida, our sales efforts produced nearly double the rate of sales in our Florida conversion communities during the second quarter compared to the first. The increase is due to value pricing, promotions and the latent demand for quality housing in the growing markets where we are selling homes. In addition, over the first six months of 2007 we have repaid \$70 million of consolidated and unconsolidated conversion-related debt, putting us ahead of our \$125 million target for the year. We expect to maintain this aggressive sales approach as we execute our strategy to improve our balance sheet before, and after, the spin-off of our homebuilding business."

83. On July 18, 2007, *Bloomberg* published an article entitled "Here's What The Accounting Watchdog Keeps Hidden." The article, in relevant part, stated:

The official mission of the auditing profession's watchdog is "to protect the interests of investors." In practice, what it really protects best are the dirty secrets of the accounting firms and their corporate audit clients.

Created in 2002 by the Sarbanes-Oxley Act, the Public Company Accounting Oversight Board inspects the firms that audit companies with U.S.-traded securities. ***In its brief history, the board has identified scores of companies where outside auditors have done lousy jobs checking the books. Investors crave that kind of knowledge.***

In its reports to the public, though, the board doesn't name the companies. So last month, for instance, ***when the board released its annual inspection report on Grant Thornton LLP, the sixth-largest U.S. accounting firm by revenue, one of the audits it criticized was at a company identified only as "Issuer A." Transparency, this isn't.***

The report said Grant Thornton failed “to obtain sufficient competent evidential matter to support its audit opinion” and “failed to identify” an accounting violation “that it should have identified and addressed before issuing its audit report.”

In a response letter, the firm complained about the harsh wording and said it actually had identified the problem. *The violation: Issuer A, which restated its financials last year, had left off its balance sheet a certain 90 percent-owned partnership, the rest of which was owned mainly by company insiders.*

What’s Missing

Here’s what the report left out: Issuer A is Tarragon Corp., a New York-based real-estate developer awash in Florida condominiums. Last year’s restatement slashed 2005 net income 39 percent to \$88.5 million. And Grant Thornton remains its auditor. Faced with those facts, some investors during proxy season almost certainly would vote to fire the auditor and perhaps even withhold votes from directors who sit on the company’s audit committee.

I uncovered Tarragon’s identity with the help of a database maintained by Audit Analytics, a Sutton, Massachusetts, research firm that tracks restatements. *While Tarragon’s filings don’t mention the accounting board’s role in forcing Grant Thornton’s hand, the facts surrounding the company’s restatement were identical to Issuer A’s. Tarragon’s chief executive officer, William Friedman, confirmed the match. Grant Thornton and the accounting board declined to do so.*

So Much Trouble

Investors shouldn’t have to go to this much trouble.

“That’s clearly information investors would want to have,” says James Melican, chairman of Proxy Governance Inc., a research firm in Vienna, Virginia, that provides proxy-voting recommendations to investors. *“I don’t see any particular reason why it should be secret.”*

The board’s inspection reports have multiple parts, most of which by law must remain secret. *The part that summarizes selected audits where inspectors found problems is the part the board must release publicly, under the Sarbanes-Oxley Act.*

Good audits should be especially paramount to Tarragon investors. In April, Tarragon announced yet another restatement, this time to correct its cash-flow statement.

Tarragon shares are down 33 percent this year. The company swung to a \$4.2 million net loss for the first quarter. And at March 31, Tarragon had just \$20.6 million of unrestricted cash on its balance sheet of Friedman and his family, who own almost half of Tarragon's common stock. *Friedman says the loans provide the company with "more financial flexibility." He says he's happy with Grant Thornton, too.* [Emphasis added.]

84. On July 25, 2007, the Company issued a press release entitled "Tarragon Corporation Comments on Unusual Trading Activity." Therein, the Company, in relevant part, stated:

Tarragon Corporation (Nasdaq: TARR), a leading developer of multifamily housing for rent and for sale, today commented on unusual trading activity in its common stock that has occurred over the past two days and that has resulted in significant price volatility. Tarragon's policy is not to respond to specific rumors or speculation in the market; however, *there has been no material change to the Company's business outlook, financial position or any other aspect of its business that would account for such trading activity.*

Tarragon Chairman and Chief Executive Officer William Friedman commented further, "We recently announced a sequential quarterly sales increase of nearly 100% in our Florida condominium conversion communities, demonstrating that we're continuing to manage the challenges we face in that market. We're also making excellent progress toward our 2007 debt reduction goals and expect to reduce consolidated and unconsolidated debt on condominium conversion communities by approximately \$125 million and \$130 million in debt on newly built, for-sale developments. Over the next few quarters, we expect to close sales of over \$600 million of completed rental properties which are expected to generate over \$450 million in debt repayment and approximately \$150 million in net cash proceeds as we execute our strategy to improve our balance sheet before, and after, the spin-off of our homebuilding business."

Additional Information About the Spin-Off Transaction

Tarragon has filed a preliminary proxy statement with the Securities and Exchange Commission related to the proposed pro rata, tax-free spin-off of its homebuilding business as an independent, publicly traded company. *The transaction, which is subject to shareholder approval, is expected to be completed during the third quarter of 2007.* Following the spin-off, Tarragon will change its name to Sage Residential, Inc. Sage will continue to operate its real estate services business, which provides asset and property management, leasing and renovation services to residential and commercial properties. Tarragon's homebuilding and development business will be renamed Tarragon Corporation. [Emphasis added.]

85. On August 9, 2007, the Company issued a press release entitled "Tarragon Will Delay Filing Its Second Quarter Form 10-Q; Company Seeks to Address Liquidity Issues; Expects to Record Significant Impairment Charges." Therein, the Company, in relevant part, stated:

Tarragon Corporation (NASDAQ: TARR) today announced that the filing of its Quarterly Report on Form 10-Q for the quarter ended June 30, 2007 will be delayed beyond the Securities and Exchange Commission's filing deadline of August 9, 2007 *in order to provide additional time for Tarragon to finalize its evaluation of property impairment charges and other write-downs necessitated by the recent decision to sell certain properties under current adverse market conditions. Tarragon currently expects to record impairment charges in excess of \$125 million.*

Tarragon is currently experiencing liquidity issues caused by the sudden and rapid deterioration in the real estate credit markets. This has resulted in Tarragon being unable to complete approximately \$50 million in financing transactions that had been under negotiation and were expected to close in August 2007.

Tarragon's business has been adversely affected by the continuing and accelerated deterioration of the homebuilding industry in the markets in which Tarragon operates, and in the Florida market in particular. These conditions have led to declines

in new home sales, increased use of sales discounts and other incentives and increased interest and other carrying costs, and have adversely affected Tarragon's gross margins from homebuilding sales as well as its overall liquidity situation. Tarragon has also incurred additional lease-up and debt service costs associated with apartment properties that had been targeted for conversion into condominiums but that it subsequently decided to operate as rental properties.

These factors, combined with the inability to obtain anticipated loan modifications and additional financing, have materially affected Tarragon's liquidity, including the ability to repay existing indebtedness as it becomes due and meet other current obligations, and raise doubt about Tarragon's ability to continue as a going concern. In addition, Tarragon currently is not in compliance with a financial covenant contained in its existing subordinated debt and after the property impairment charges and other write-downs discussed above are recorded, Tarragon will not be in compliance with certain net worth maintenance and other financial covenants contained in this and other debt agreements. Tarragon has not made its August 2007 debt service payments as well as certain other vendor payments, and Tarragon is seeking deferral of such payments while it continues to negotiate to obtain debt and/or equity financing. Tarragon also currently owes approximately \$37.0 million under its unsecured line of credit with affiliates of William S. Friedman, Tarragon's chief executive officer and chairman. Tarragon and Mr. Friedman have agreed that no further advances will be made under this credit line.

Notwithstanding these issues, Tarragon believes that its real estate portfolio and development platform currently have significant equity value in excess of existing indebtedness. Accordingly, Tarragon's board of directors has formed a special committee of independent directors to evaluate strategic and financial alternatives that may be available to Tarragon and its stakeholders. The special committee is retaining Lazard to act as a financial adviser to Tarragon in evaluating its alternatives. Alternatives to be considered are expected to include all available forms and sources of financing, property sales and other strategic transactions. However, if Tarragon is unable to obtain sufficient liquidity to fund its operations in the near-term, it may be necessary for Tarragon to undertake such other actions as may be appropriate in the light of its current liquidity situation. Tarragon does not intend to comment further publicly with respect to the exploration of strategic and financial alternatives unless a

specific transaction or course of action is authorized by its board of directors.

Tarragon previously filed a preliminary proxy statement with the SEC related to the proposed pro rata, tax-free spin-off of its homebuilding division as an independent, publicly traded company. *Due to current market conditions and the related impact on Tarragon's financial condition, Tarragon has decided to postpone the spin-off of the homebuilding business as it concentrates on addressing its existing financial requirements.* [Emphasis added.]

86. Also, on August 9, 2007, Tarragon filed a Form 8-K with the SEC disclosing, among other things, that the filing of its quarterly report on Form 10-Q for the fiscal quarter ended June 30, 2007, would be delayed beyond the SEC's filing deadline of August 9, 2007 in order to provide additional time for Tarragon to finalize its evaluation of property impairment charges and other write-downs and that Tarragon expected to record impairment charges in excess of \$125 million.

87. On this news, the Company shares declined \$1.88, or over 66.6 percent, to close on August 9, 2007 at \$0.94 per share, on unusually heavy trading volume.

88. The true facts, which were known by defendants but concealed from the investing public during the Relevant Time Period, were as follows:

- (a) In violation of GAAP, the Company had failed to consolidate an unprofitable variable interest entity into its consolidated financial statements;
- (b) In violation of GAAP, the Company had failed to properly account for its statement of cash flows by failing to properly classify its cash inflows and cash outflows as operating, investing and financing activities;
- (c) In violation of GAAP, the Company had failed to timely take property

impairment charges and other write-downs;

(d) In violation of GAAP, the Company was recognizing revenue on the percentage-of-completion method when it lacked a reasonable assurance that persons making initial deposits for purchases of condominiums would follow through on their initial commitments;

(e) Due to the deterioration in the real estate credit markets, the Company was experiencing liquidity issues due to inability to obtain loan modifications and additional financing and there was serious doubt about Tarragon's ability to continue as a going concern;

(f) As the Company was experiencing a massive downturn in its business, Tarragon would not be able to remain in full compliance with all of its debt covenants and was, in fact, as of June 30, 2007 no longer in compliance with certain covenants; and

(g) With respect to statements made in July 2007, given the increased volatility in the homebuilding industry and the real estate credit markets, the Company had no reasonable basis to make projections about its 2007 results. As a result, the Company's projections issued during the Relevant Time Period about its 2007 results were false and misleading.

POST RELEVANT TIME PERIOD DEVELOPMENTS

89. On August 15, 2007, *Bloomberg* reported:

Tarragon Corp., a U.S. homebuilder, is in talks with lenders to avert bankruptcy after receiving default notices and demands that the company immediately pay back 17 percent of its \$1.6 billion in outstanding debt.